



Randall L. Johnson, Chair
Citizens' Health Care Working Group
7201 Wisconsin Avenue
Suite 575
Bethesda, MD 20814

August 31, 2006

Dear Mr. Johnson:

On behalf of the National Small Business Association, I am pleased to submit the following comments on the Interim Recommendations of the Citizens' Health Care Working Group. This bipartisan attempt to survey stakeholders and compile a comprehensive plan for reforming the U.S. health care system is certainly difficult, but absolutely necessary. I applaud your efforts and the continued commitment of the Citizens' Health Care Working Group to bring about much-needed reform.

Nearly three years ago, NSBA set out to define what we believe the health care market should look like. During a span of one year we surveyed our membership and held a series of meetings with our small business members who represented consumer, insurer and provider constituencies. As the nation's oldest nonpartisan small-business advocacy group, NSBA first attempted to focus on the needs of small business.

Small businesses account for 99.7 percent of all employer firms, employ half of all private sector employees, and generate 65 percent of net new jobs annually. With a string of annual double-digit increases in premium cost in the early 2000s—and more and more small businesses being forced to reduce or eliminate coverage for their employees—it is imperative that the small-group market be given significant attention when crafting health care policy.

Early in NSBA's mission to define meaningful reform, we found that small-business problems cannot be solved in isolation from the rest of the system. Since small businesses purchase insurance as part of a larger pool with shared costs, the decisions of others directly affect what a small business must pay and the terms on which insurance is available to them. It has become clear to NSBA that, to bring meaningful affordability, access, and equity in health care to small businesses and their employees, a broad reform of the health care system is necessary. This reform must reduce health care costs while improving quality, bring about a fair sharing of health care costs, and focus on the empowerment and responsibility of individual health care consumers.

Listed below are NSBA's comments on the Interim Recommendations:

Recommendation: Guarantee financial protection against very high health care costs.
NSBA supports the notion that all Americans should be required to have health coverage.

Implicit in the concept of insurance is that those who use it are subsidized by those who do not. People have a good sense of their own health, and healthier individuals are less likely to purchase

insurance until they perceive they need it. As insurance becomes more expensive, this proclivity is further increased (which, of course, further decreases the likelihood of the healthy purchasing insurance).

There is no hope of correcting these inequities until we have something close to universal participation of all individuals in some form of health care coverage. NSBA's plan for ensuring that all Americans have health coverage can be simply summarized: 1) require everyone to have coverage; 2) reform the insurance system so no one can be denied coverage and costs are fairly spread; and 3) institute a system of subsidies, based upon family income, so that everyone can afford coverage.

Of course, the decision to require coverage would mean that there must be some definition of the insurance package that would satisfy this requirement. Such a package must be truly basic. The required basic package would include only necessary benefits and would recognize the need for higher deductibles for those able to afford them. The shape of the package would help return a greater share of health insurance to its role as a financial backstop, rather than a reimbursement mechanism for all expenses. More robust consumer behavior will surely follow.

Incumbent on any requirement to obtain coverage is the need to ensure that appropriate coverage is available to all. A coverage requirement would make insurers less risk averse, allowing for the possibility of broader insurance reform. Insurance standards or rating-band type rules would limit the ability of insurance companies to charge radically-varied prices to different populations and would eliminate the ability of insurers to deny or price coverage based upon health conditions—in both the group and individual markets.

With regards to low-income individuals, NSBA supports the recommendation to provide individuals and families federal financial assistance for health premiums, based upon income.

Recommendation: Promote efforts to improve quality of care and efficiency.

NSBA supports improved quality and efficiency as a means to better serve patients as well as reign in costs.

While increased consumer behavior can help reduce utilization at the front end, most health care costs are consumed in hospitals and by chronic conditions whose individual costs far exceed any normal deductible level

There is an enormous array of financial pressures and incentives that act upon the health care provider community. And too often, the incentive for keeping patients healthy is not one of them. America's medical malpractice system is at least partly to blame. While some believe these laws improve health care quality by severely punishing those who make mistakes that harm patients, the reality is that they simply lead to those mistakes—and much more—being hidden.

Health care quality is enormously important, not only for its own sake, but because lack of quality adds billions to our annual health care costs. Medical errors, hospital-acquired infections, and other forms of waste and inefficiency cause additional hospital re-admissions, longer recovery times, missed work and compensation, and, unfortunately, death. With costs associated with

medical errors ranging between an estimated \$17 billion to \$29 billion (according to IOM), and deaths estimated as high as 98,000 per year, health care quality must be addressed.

What financial pressures are we bringing to bear on the provider community to improve quality and reduce waste? Almost none. In fact, we may be doing the opposite, since providers make more money from re-admissions and longer-term treatments. It is imperative to reduce costs through improved health care quality. Rather than continuing to pay billions for care that actually hurts people and leads to more costs, more should be paid for quality care. Less (or nothing) should be paid when egregious stakes occur.

Two broad reforms are urgent:

* **Pay-for-Performance:** Insurers should reimburse providers based upon actual health outcomes and standards, rather than procedures. CMS and Medicare already have implemented this process, and President George W. Bush's recent executive order on health care transparency compounds its importance. Evidence-based indicators and protocols should be developed to help insurers, employers, and individuals hold providers accountable. These protocols—if followed—also could provide a level of provider defense against malpractice claims.

* **Electronic Records and Procedures:** Digital prescription writing, individual electronic medical records and universal physician IDs aids technology to reduce unnecessary procedures, reduce medical errors, increase efficiency, and improve the quality of care. This data also can form the basis for publicly-available health information about each health care provider, helping patients make informed choices.

Recommendation: It should be public policy that all Americans have affordable health care.

NSBA supports access to affordable care for all Americans.

As outlined above, NSBA believes that the best way to achieve universal health care—or as close as is possible—is by individuals being required to carry health insurance. NSBA believes that health insurance ought to serve as a financial back-stop for significant health care costs, and therefore a basic or catastrophic package would be appropriate.

That requirement for a basic package would not limit what people could buy. Individuals would be free to purchase any package, as long as it met the minimum standard set by the basic package. Greater consumer involvement will act as a catalyst to increased sensibility in health care spending. How health care is paid for also must be addressed.

There currently is an open-ended tax exclusion for employer-provided health coverage for both the employer and employee. This tax status has made health insurance preferable to other forms of compensation, leading many Americans to be “over-insured.” This over-insurance leads to a lack of consumer behavior, increased utilization of the system, and significant increases in the aggregate cost of health care. Insurance now frequently covers (on a tax-free basis) non-medically necessary services, which would otherwise be highly responsive to market forces.

The health insurance tax exclusion also creates equity concerns for small employers and their employees. Since larger firms' employees have greater access to health insurance plans than their

smaller counterparts, a greater share of their total employee compensation package is exempt from taxation. Furthermore, many small-business owners, self-employed and even small-business employees are currently in the individual insurance market, where only those premiums that exceed 7.5 percent of income are deductible.

For these reasons, the individual tax exclusion for health insurance coverage should be limited to the value of the basic benefits package. But this exclusion (deduction) also should be extended to individuals purchasing insurance on their own. Moreover, the tax status of health insurance premiums and actual health care expenses should be comparable. These changes would bring equity to small employers and their employees, eliminate the federal subsidy for over-insurance, induce much greater consumer behavior, and reduce overall health care expenses.

Recommendation: Define a 'core' benefit package for all Americans.

NSBA supports a federally-defined basic benefit package for all Americans.

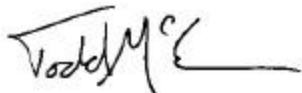
NSBA supports the recommendation to create a non-partisan private-public group to define what a core benefit package would look like. A key tenet of the NSBA plan, however, is to keep any defined package level basic and allow for consumers to purchase additional benefits if desired. Any and all benefits included should be evidence-based and medically-proven to improve long-term health.

We also would argue for the inclusion of language that outlines the process of adding new benefits to the core package. If the core package were basic, as NSBA defines it, there likely would be a push by special interest groups to get their particular benefit included in the core package. Any added benefit should pass the muster of a cost-benefit analysis before even being considered for inclusion.

The small-business community needs substantial relief from escalating health insurance premiums. This level of relief can only be achieved through a broad reform of the health care system with a goal of universal coverage, focus on individual responsibility and empowerment, the creation of the right market-based incentives, and a relentless focus on improving quality while driving out unnecessary, wasteful, and harmful care.

I appreciate this opportunity to comment on the Interim Recommendations and welcome any questions you may have.

Sincerely,

A handwritten signature in black ink, appearing to read "Todd McCracken", with a stylized flourish at the end.

Todd O. McCracken
President